

NOTES FROM THE:

Auditor General of the Air Force



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Working with the External Auditor

As I discussed in the January *Air Force Comptroller* magazine, we are moving into a new era where public accountant firms are participating in the Air Force Chief Financial Officers (CFO) Act audits. Specifically, the CFO Act of 1990 required the Department of Defense Inspector General (DoDIG) to audit the Air Force financial statements or to designate an independent external auditor to audit those statements. For over a decade, the DoDIG delegated that responsibility to the Air Force Audit Agency (AFAA). Recently, the DoDIG and senior Air Force officials, with AFAA concurrence, have contracted with a public accounting firm (KPMG) for part of the FY01 audit—General Fund Statement of Budgetary Resources (SBR). KPMG will plan and direct the SBR work with significant support from AFAA. While Air Force and Defense Finance and Accounting Service (DFAS) financial managers may encounter both AFAA and KPMG auditors, our goal is to conduct the audit as one integrated team. We expect significant benefits from the new partnership.

Benefits

Senior Air Force officials believe the external audit firm will bring experience from auditing other government agencies, technical expertise, and fresh perspective to the CFO audit. For example, employing a risk-based approach, KPMG will identify those SBR areas having the highest potential for financial statement misstatement, and apply appropriate procedures to verify those areas are *fairly presented in all material respects*. An integral foundation for this risk-based approach will be a thorough evaluation of Air Force and DFAS internal controls.

Internal Control Tests

Beginning in late spring, KPMG and AFAA auditors will accomplish *walk-throughs* of financial transaction processes to thoroughly understand the internal controls designed to detect and pre-

vent unreliable information from flowing to the SBR. To ensure these controls are effective and working as intended, auditors will accomplish limited tests of transactions to determine the reliability of the controls. If controls are ineffective or nonexistent, KPMG will increase sample sizes for substantive testing (largely accomplished by AFAA) to ensure detection of material misstatements. In addition to internal control tests, the firm will concurrently assess critical information systems.

Information System Reviews

Integral to their understanding of SBR processes and transactions, KPMG identified seven DFAS information systems they believed were critical to SBR preparation. To assess and place reliance on system controls, the firm's information technology specialists will perform specific general and application control tests to determine whether financial transactions are properly, accurately, and timely processed. Where general and/or application controls are found lacking, auditors will evaluate *compensating controls* to determine whether these alternative actions ensure systems process critical data accurately and timely for SBR financial reporting. Again, adequate compensating controls can help reduce audit sample sizes.

Conclusion

We in AFAA look forward to this new partnership and fully expect to gain new insight and lessons learned from this joint endeavor. While our FY00 audit of the General Fund Statement of Budgetary Resources produced the best results to date—e.g., we concluded the obligation end balance was within materiality thresholds for the first time—other unresolved issues kept us at a disclaimer. With the synergy of this new partnership, we hope to see positive audit opinions in the near future. Working together, we can help the Air Force demonstrate significant progress in financial reporting.